

KITTITAS COUNTY PUBLIC HOSPITAL DISTRICT No. 2
Kittitas County, Washington
January 1, 1992 Through December 31, 1994

Schedule Of Findings

1. Public Funds Were Missing And Accounting Records Were Manipulated To Conceal Missing Funds

A loss of at least \$200 occurred at Kittitas County Public Hospital District No. 2 between February 14 and February 28, 1994. The accounting records were manipulated to conceal this loss by using a check for cash substitution scheme. This scheme is perpetrated by replacing cash that was receipted into the cash drawer with a corresponding amount of checks from other unrecorded sources.

On February 28, 1994, the district secretary notified the hospital administrator that cash was missing from the district's change box. Included in the change box was a check for \$200 dated February 17, 1994, for which there was no receipt and missing was \$200 cash for which there were receipts.

The \$200 check was received on February 17, 1994, by the hospital administrator from the sale of a sink from the old hospital. The administrator did not issue a cash receipt to record accountability for these funds or deposit the check for this transaction in the district's bank account as should have been done. Further, he did not notify or receive permission from the hospital board for the sale of this sink as required by RCW 70.44.320. Instead the check was held for several days, when on February 28, 1994, it appeared in the receipt drawer.

When the administrator was notified of the missing cash he went to the change box and retrieved the \$200 check for the sale of the sink and suggested the district secretary cash it and deposit the money back in the change fund. When she refused, he personally cashed the check, which was payable to Kittitas Hospital #2/petty cash, and deposited the money back into the change fund to conceal the \$200 cash theft.

The administrator stated that this money was included with cash receipts/change fund and deposited at the end of the day on February 28 to conceal the loss of other cash receipts so that it would not become a big issue. There were only two other cash receipts totaling \$188.72 identified in the February 28 deposit. Both cash receipts were issued and receipted by the hospital administrator, one of which was for \$145 cash received on February 14, which should have been deposited at that time.

The hospital administrator said he was not aware of the requirement to report the loss of funds. He was also unable to explain the loss of funds or why the sale of the sink was not receipted. Further, he was unable to explain why he held cash receipts without depositing them timely.

Revised Code of Washington (RCW) 43.09.230 states in part:

The state auditor, through such division, shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution, and every public office, and every public account of the same class . . .

The accounts shall show the receipt, use and disposition of all public property, and the income, if any derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . .

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible.

RCW 42.20.070 states in part:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district who)

- (1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account of or relating to any money so received by him; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or
- (4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in the state penitentiary for not more than fifteen years.

State of Washington, Office of State Auditor Bulletin No. 007 states in part:

In the event of a suspected loss of public funds, it is important that correct procedures be followed in order to minimize the loss, assist investigations, prevent improper settlements, expedite bond claims and protect employees from false accusations.

The chief executive officer or chief financial officer should immediately report the suspected loss to the State Auditor's Regional Audit Manager or the Chief Examiner of the Division of Municipal Corporations. A report should also be made to your Prosecuting Attorney and legal counsel.

RCW 70.44.320 states in part:

The board of commissioners of any public hospital district may sell or otherwise dispose of surplus personal property of the district which the board has determined by resolution is no longer required for public hospital district purposes

The following weaknesses in the internal controls allowed the loss of public funds to occur and not be detected in a timely manner and significantly increased audit costs:

- a. The hospital administrator failed to:
 - (1) Obtain approval from the board of commissioners for the disposition of excess property; and
 - (2) Report this loss to the board of commissioners, police, State Auditor's Office, and the insurance bonding company.
 - (3) Record all cash receipts transactions.
 - (4) Deposit all receipts in a timely manner and intact. Currency was often retained and not deposited intact with other funds deposited.
- b. The district did not prepare a daily activity report at the end of each business day/period to:
 - (1) Reconcile the total amount of money received per the accounting records to the total amount of money being deposited in the bank; and
 - (2) Account for the petty cash/change fund authorized imprest cash balance.
- c. The district did not retain originals of voided receipts on file to enable the verification of the completeness of all receipts.

We recommend the district:

- a. Review the accounting controls over cash receipts, correct the above noted weaknesses, and implement an effective system of internal controls designed to ensure the protection of public assets.
- b. Notify the insurance bonding company of this loss of funds.

- c. Consult with the prosecuting attorney's office about the circumstances surrounding the loss of funds.

We further recommend the Kittitas County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.